

AR53

CANADA MALTING CO.  
LIMITED



ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 1975





# LEAVER MUSHROOMS

CANADA MALTING CO., LIMITED

## ANNOUNCEMENT

On March 25, 1976 Manbre & Garton Ltd., a public company in the United Kingdom, purchased the Company's fifty percent (50%) interest in the capital stock of Hugh Baird & Sons Limited at a price of \$3,340,636 Canadian Funds.

"Tasty" says:

FOR QUALITY AND FLAVOUR  
ASK FOR LEAVER

I'm "Tasty"





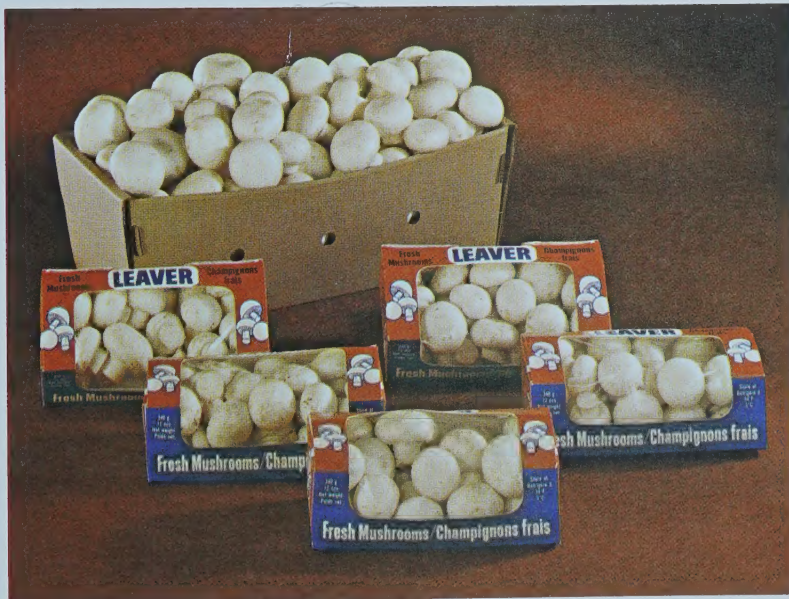


# LEAVER MUSHROOMS

Packed Fresh in Canada

*Canned...*

- Whole
- Sliced
- Creamed
- Pieces and Stems



*Fresh  
Packed*

“Tasty” says:

FOR QUALITY AND FLAVOUR  
ASK FOR **LEAVER**

I’m “Tasty”







# CANADA MALTING CO., LIMITED

## *Board of Directors*

NIGEL B. BAIRD

STANTON J. BURKETT

BRUCE M. COHOE

HARRY F. GRAESSER

W. DOUGLAS HATCH

LEONARD G. LUMBERS

ROBERT J. D. MARTIN

WALLACE F. READ

GEORGE H. SELLERS

REGINALD J. THOMAS

## *Honorary Directors*

GORDON McMILLAN, Q.C.

DOUGLAS W. AMBRIDGE, C.B.E., B.Sc.

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## *Officers*

HARRY F. GRAESSER . . . . .	PRESIDENT AND CHIEF EXECUTIVE OFFICER
REGINALD J. THOMAS . . . . .	EXECUTIVE VICE-PRESIDENT
STANTON J. BURKETT . . . . .	VICE-PRESIDENT SALES
CHARLES T. CLEGG . . . . .	SECRETARY
GORDON J. CATER . . . . .	TREASURER
JAMES C. GRANT . . . . .	GENERAL MANAGER

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## *Head Office*

TORONTO - ONTARIO

## *Malthouses and Elevators*

MONTREAL, QUEBEC	- -	WINNIPEG, MANITOBA
TORONTO, ONTARIO	- -	CALGARY, ALBERTA
THUNDER BAY, ONTARIO		

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## *Transfer Agent*

CANADA PERMANENT TRUST COMPANY

TORONTO, ONTARIO - - MONTREAL, QUEBEC

CALGARY, ALBERTA

## *Registrar*

MONTREAL TRUST COMPANY

TORONTO, ONTARIO - - MONTREAL, QUEBEC

CALGARY, ALBERTA

## REPORT OF THE DIRECTORS TO THE SHAREHOLDERS FOR THE FISCAL YEAR ENDED DECEMBER 31, 1975

Malt shipments during 1975 reached a new record high, exceeding those of the previous year by approximately 4%. The higher percentage increase in dollar sales was due largely to the increased cost of barley.

Consolidated net earnings amounted to \$2,601,939, equivalent to \$3.01 per share, compared with \$4,157,741 and \$4.81 per share a year ago.

The lower earnings can be attributed to two factors: the poor quality of the 1974 crop barley and greatly increased operating costs. Adverse weather conditions across the prairies during the harvest season resulted in probably the worst quality barley we have ever had to process and, consequently, our production results were much below normal. In common with many other Canadian companies, inflationary pressures have increased our labour costs so that they are now out of line with those in countries against whom we must compete in export markets, and these, together with other costs such as power and fuel, have had a major impact on the erosion of profit margins.

With regard to the expropriation of our Toronto, Bathurst Street, property, since the end of the year a tentative agreement has been reached which, when finalized, will include additional monetary compensation and a mutually satisfactory lease-back arrangement.

We regret to report that because of ill health Mr. Lloyd H. Leaver has been forced to withdraw from active participation in the operation of the mushroom company. He has, however, agreed to remain on the Board of Directors of that company, and thus we will continue to benefit from his knowledge and many years of experience. On September 30, 1975, under the terms of the original purchase agreement, Canada Malting Co. Limited acquired the remaining 40% of the common stock owned by the Leaver interests at a cost of \$1,196,599. As previously reported, the mushroom company had a loss for the nine months of the year to September 30, 1975. The share of this loss applicable to the minority Leaver interest is reported separately in the consolidated statement of earnings. The Canadian mushroom industry continues to be adversely affected by imports of processed mushrooms, most of which come from the Far East. Reacting to this low priced competition we have switched more production into the fresh market and earnings in the last three months have improved, resulting in an overall profit for the year.

Our associate company in the United Kingdom, Hugh Baird & Sons Limited, reports that malt sales have been maintained during the first six months of their current fiscal year, and a further extension to their malting facilities in Scotland is being planned for completion in 1977.

While the quality of the 1975 barley crop is much better than that of the previous year, the outlook for exports of Canadian malt during the current year is not very promising, due to severe competition from European maltsters who were able to obtain substantial Government subsidies on malt exported to countries outside the Common Market. The Canadian, United States and Australian governments have protested the unfairness of this EEC policy, and we are hopeful that changes may be made before the commencement of new crop offerings. In the meantime, because of our barley price and high manufacturing cost, we have been priced out of many of our traditional export markets.

Your directors are pleased to record their appreciation of the loyal support and cooperation of all employees during the year under review.

On behalf of the Directors,

HARRY F. GRAESSER,  
President.



# CANADA MALTING CO., LIMITED

and subsidiary company

## CONSOLIDATED STATEMENT OF EARNINGS

	<u>Year ended December 31</u>	
	<u>1975</u>	<u>1974</u>
Net sales. . . . .	\$123,260,865	\$105,948,482
Costs and expenses:		
Cost of products sold and all expenses except items shown below . . . . .	113,938,581	93,853,546
Interest on long term debt . . . . .	81,125	83,250
Bank and other interest (Note 8) . . . . .	3,010,911	2,992,089
Provision for depreciation . . . . .	2,069,960	1,998,166
Amortization of leasehold interests . . . . .	—	51,698
Provision for income taxes . . . . .	<u>1,914,000</u>	<u>3,161,000</u>
	<u>121,014,577</u>	<u>102,139,749</u>
Earnings from operations . . . . .	2,246,288	3,808,733
Dividends received (Note 3) . . . . .	64,216	65,305
Interest income, less income taxes of 1975 - \$230,000; 1974 - \$252,000 (Note 8) . . . . .	<u>280,000</u>	<u>326,000</u>
Earnings before minority interest . . . . .	2,590,504	4,200,038
Minority interest in earnings of subsidiary (Note 2) . . . . .	<u>(11,435)</u>	<u>42,297</u>
Net earnings for the year . . . . .	<u>\$ 2,601,939</u>	<u>\$ 4,157,741</u>
Earnings per share . . . . .	<u>\$3.01</u>	<u>\$4.81</u>

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	<u>Year ended December 31</u>	
	<u>1975</u>	<u>1974</u>
Balance at beginning of year . . . . .	\$ 20,680,065	\$ 17,731,766
Net earnings for the year . . . . .	<u>2,601,939</u>	<u>4,157,741</u>
	<u>23,282,004</u>	<u>21,889,507</u>
DEDUCT:		
Dividends on common shares:		
Class A shares (\$1.40 per share) . . . . .	1,065,078	1,058,617
Class B shares (\$1.19 per share) . . . . .	123,033	128,201
Tax paid on undistributed income . . . . .	<u>21,712</u>	<u>22,624</u>
	<u>1,209,823</u>	<u>1,209,442</u>
Balance at end of year . . . . .	<u>\$ 22,072,181</u>	<u>\$ 20,680,065</u>

## ASSETS

	December 31	
	1975	1974
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 355,819	\$ 44,963
Accounts receivable . . . . .	12,239,460	10,604,730
Inventories —		
Barley and malt . . . . .	40,530,770	38,888,737
Operating supplies . . . . .	510,585	571,278
Prepaid expenses . . . . .	<u>207,063</u>	<u>203,241</u>
	53,843,697	50,312,949
 <b>OTHER ASSETS:</b>		
Investment in shares of Hugh Baird & Sons Limited (Note 3) . . . . .	2,499,484	2,499,484
Grain Exchange Seats and Membership in Clearing Association, less amounts written off . . . . .	<u>1</u>	<u>1</u>
	2,499,485	2,499,485
 <b>FIXED ASSETS:</b>		
Buildings, plant and equipment . . . . .	49,861,277	48,943,923
Less: Accumulated depreciation . . . . .	<u>22,885,071</u>	<u>20,877,198</u>
	26,976,206	28,066,725
Land . . . . .	<u>1,763,844</u>	<u>1,763,844</u>
	28,740,050	29,830,569
 Approved by the Board:		
 HARRY F. GRAESSER, <i>Director</i>		
REGINALD J. THOMAS, <i>Director</i>		
	<u><u>\$85,083,232</u></u>	<u><u>\$82,643,003</u></u>



## CO., LIMITED

Company

## BALANCE SHEET

## LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>December 31</u>	
	<u>1975</u>	<u>1974</u>
<b>CURRENT LIABILITIES:</b>		
Bank advances and bankers' acceptances (Note 4) . . . . .	\$28,560,037	\$27,447,775
Accounts payable and accrued liabilities . . . . .	9,044,107	7,091,970
Long term debt payable within one year . . . . .	200,000	200,000
Taxes on income . . . . .	<u>316,801</u>	<u>1,121,518</u>
	38,120,945	35,861,263
<b>LONG TERM DEBT OF SUBSIDIARY:</b>		
8% First mortgage debentures payable \$100,000 annually 1977 to 1983 . . . . .	700,000	800,000
9% First mortgage payable in 1976 . . . . .	—	100,000
<b>DEFERRED EXPROPRIATION COMPENSATION (Note 7) . . . . .</b>	<b>705,000</b>	<b>705,000</b>
<b>DEFERRED INCOME TAXES . . . . .</b>	<b>3,544,400</b>	<b>3,360,300</b>
<b>MINORITY INTEREST IN SUBSIDIARY (Note 2) . . . . .</b>	<b>—</b>	<b>1,208,034</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock —		
Authorized —		
Preferred shares of a par value of \$1 each,		
issuable in series . . . . .	7,761,206 shares	
Common shares without nominal or par value		
Class A . . . . .	2,000,000 shares	
Class B . . . . .	1,500,000 shares	
Issued and outstanding —		
Common shares (Note 5)		
Class A . . . . .	754,480 shares	
Class B . . . . .	<u>109,963 shares</u>	
	864,443 shares	
Retained earnings (Note 6) . . . . .	<u>22,072,181</u>	<u>20,680,065</u>
	27,184,211	25,779,730
Excess of appraised value of fixed assets over depreciated book value on		
February 28, 1955 . . . . .	<u>14,828,676</u>	<u>14,828,676</u>
	<u>42,012,887</u>	<u>40,608,406</u>
	<u>\$85,083,232</u>	<u>\$82,643,003</u>

# CANADA MALTING CO., LIMITED

and subsidiary company

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year ended December 31</u>	
	<u>1975</u>	<u>1974</u>
Source of working capital:		
Net earnings . . . . .	\$ 2,601,939	\$ 4,157,741
Non-cash charges deducted in arriving at earnings —		
Provision for depreciation . . . . .	2,069,960	1,998,166
Amortization of leasehold interests . . . . .	—	51,698
Deferred income taxes . . . . .	184,100	697,000
Minority interest in earnings of subsidiary (Note 2) . . . . .	<u>(11,435)</u>	<u>42,297</u>
Funds provided from operations . . . . .	4,844,564	6,946,902
Shares issued under employees stock option plan (Note 5) . . . . .	<u>12,365</u>	<u>—</u>
	<u>4,856,929</u>	<u>6,946,902</u>
Use of working capital:		
Purchase of 40% minority interest in Leaver Mushrooms Co. Limited (Note 2) . . . . .	1,196,599	—
Additions to fixed assets . . . . .	979,441	3,925,913
Dividends on common shares . . . . .	1,188,111	1,186,818
Tax paid on undistributed income . . . . .	21,712	22,624
Reduction of long term debt . . . . .	<u>200,000</u>	<u>200,000</u>
	<u>3,585,863</u>	<u>5,335,355</u>
Resulting in an increase in working capital of . . . . .	1,271,066	1,611,547
Working capital at beginning of year . . . . .	<u>14,451,686</u>	<u>12,840,139</u>
Working capital at end of year . . . . .	<u>\$15,722,752</u>	<u>\$14,451,686</u>

## FIVE YEAR EARNINGS

	<u>Net</u> <u>Earnings</u>	<u>Earnings per</u> <u>Common Share</u>
1971	2,630,422	2.89*
1972	2,835,768	3.13*
1973	3,279,485	3.60*†
1974	4,157,741	4.81
1975	2,601,939	3.01

\*After providing for dividends on preferred shares.

†Excluding extraordinary item.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 1975

1. SUMMARY OF ACCOUNTING POLICIES:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Leaver Mushrooms Co. Limited.

(b) Inventories —

Barley and malt are valued at the lower of cost on a first-in first-out basis and net realizable value. Operating supplies are valued at cost or less.

(c) Fixed assets —

Land, buildings, plant and equipment are stated at 1955 appraised values plus subsequent additions at cost. Depreciation provisions are computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets.

(d) Income taxes —

Deferred income taxes are provided for all significant timing differences in reporting costs and expenses for financial statement and tax purposes. The timing differences arise principally from differences in depreciation provided in the accounts and depreciation deductible for tax purposes.

(e) Pensions —

Current service costs are charged to operations as they accrue. Unfunded past service costs, amounting to approximately \$2,665,000 at December 31, 1975, are being amortized by annual payments through to 1989.

2. LEAVER MUSHROOMS CO. LIMITED:

Effective as of September 30, 1975 the Company purchased the minority 40% share interest in Leaver Mushrooms Co. Limited at an amount equivalent to the underlying book value of the shares acquired. The consolidated statement of earnings includes 60% of the operating results of Leaver Mushrooms Co. Limited for the nine months ended September 30, 1975 and, reflecting the acquisition of the minority 40% share interest, the full amount of the operating results for the three months ended December 31, 1975.

3. HUGH BAIRD & SONS LIMITED:

The investment in Hugh Baird & Sons Limited (50% owned) is carried at cost and the Company's share of its earnings is taken up only to the extent of dividends received. The equity method of accounting, whereby the equity in the annual earnings of the investee is included in the investor's earnings, has not been applied to the Company's investment in Hugh Baird & Sons Limited since it appears unlikely, under present dividend restrictions in the United Kingdom, that any appreciable portion of the Company's equity in the undistributed earnings of Hugh Baird & Sons Limited will accrue to the Company in the foreseeable future.

The Company's equity in the earnings of Hugh Baird & Sons Limited amounted to \$369,140 for its fiscal year ended July 31, 1975 and dividends of \$64,216, paid at the maximum permissible amount, were received during 1975; the corresponding figures for 1974 were equity in earnings of \$376,014 and dividends received of \$65,305. Since date of acquisition of the investment in Hugh Baird & Sons Limited the Company's accumulated equity in its undistributed earnings amounts to \$967,827.

Accounts receivable include an amount due from Hugh Baird & Sons Limited of \$730,804 (1974 - nil) arising in the ordinary course of business.

4. BANK ADVANCES AND BANKERS' ACCEPTANCES:

Bank advances and bankers' acceptances are secured by a general assignment of accounts receivable and a pledge of inventories under Section 88 of the Bank Act.

5. COMMON SHARES:

The Employees Stock Option Plan, ratified by shareholders at the Annual Meeting on April 24, 1975, authorized the granting of options on 20,000 Class A common shares at prices not less than 90% of the market price on the day immediately preceding the date of grant. The options are exercisable in instalments during a period of not more than five years from date of grant. During the year ended December 31, 1975 options were granted on 17,000 shares and options on 555 shares were exercised for a cash consideration of \$12,365. At December 31, 1975 options to purchase 16,445 shares at \$22.28 per share were outstanding including options for 4,105 shares held by six officers three of whom are directors.



The Class A and Class B shares are inter-convertible on a share-for-share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends but the Directors may elect to declare and pay a dividend on the Class B shares out of tax-paid undistributed surplus on hand, or out of 1971 capital surplus on hand, provided that a cash dividend is declared and paid on the Class A shares in an amount equal to the sum of the cash dividend on the Class B shares plus the tax paid to create the tax-paid undistributed surplus. Changes in the share capital of the Company during the year were as follows:

	<u>Class A</u>	<u>Class B</u>
Shares issued and outstanding at beginning of year .....	766,155	97,733
Class A shares issued on exercise of options .....	555	
Class A shares converted into Class B (net) .....	<u>(12,230)</u>	<u>12,230</u>
Shares issued and outstanding at end of year .....	<u>754,480</u>	<u>109,963</u>

6. **RETAINED EARNINGS:**

Retained earnings at December 31, 1975 include \$2,080,646 designated as capital surplus under Section 62 of the Canada Corporations Act, arising from the redemption and cancellation of 1,727,776 Series A preferred shares in 1969 and the purchase and the cancellation of 352,870 Series B preferred shares during 1970 and prior years.

7. **EXPROPRIATION:**

In 1973 the Company received an interim payment of \$5,405,000 from the Federal Government on compensation for the expropriation of its Toronto Bathurst Street property, comprising \$4,700,000 for land and buildings and \$705,000 for disturbance costs. Continuing negotiations on an equitable settlement for the expropriated property have resulted since December 31, 1975 in a tentative agreement on the total compensation and also on proposed arrangements whereby the Company will lease back the expropriated property.

8. **BANK INTEREST:**

The interim payment of \$5,405,000 received in 1973 on compensation for the expropriated Toronto Bathurst Street property was applied in reduction of bank advances. Interest income attributable to these funds, as measured by the resulting reduction in bank interest expense, has been presented separately in the consolidated statement of earnings.

9. **REMUNERATION OF DIRECTORS AND OFFICERS:**

The remuneration of ten directors amounted to \$23,400 (1974 — \$27,800) and the remuneration of six officers amounted to \$220,338 (1974 five officers — \$186,511). Three of the officers are also directors of the Company.

10. **ANTI-INFLATION PROGRAM:**

The Company is subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. While there are a number of general uncertainties concerning implementation of the program, it is reasonably clear that the Company is in compliance with the guidelines and regulations for the compliance period to December 31, 1975.

To comply with the controls, the present quarterly dividend rate of 35 cents per Class A share and 29.75 cents per Class B share may not be exceeded during the first compliance period from October 14, 1975 to October 13, 1976.

## AUDITORS' REPORT

To the Shareholders of  
Canada Malting Co., Limited:

We have examined the consolidated balance sheet of Canada Malting Co., Limited and its subsidiary company as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

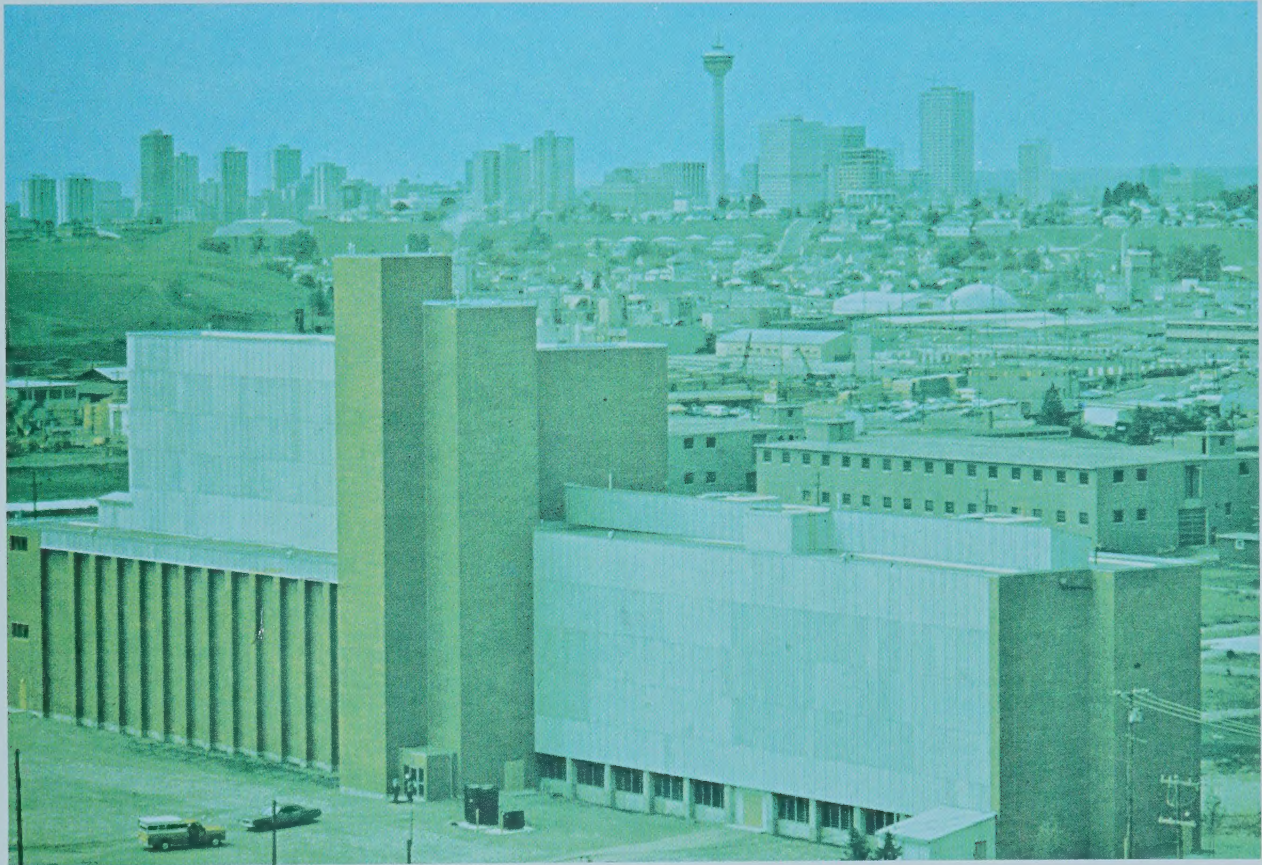
Toronto, Ontario  
February 27, 1976

PRICE WATERHOUSE & CO.  
Chartered Accountants.



# **CALGARY PLANT ADDITION**

## **1974**



**This addition increases the total annual  
malting capacity on this site  
to 130,000 metric tons.**

**CANADA MALTING CO. LIMITED**



